SOL PLAATJE LOCAL MUNICIPALITY

LONG TERM FINANCIAL PLANNING POLICY

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1. INTRODUCTION

In essence a financial plan encompasses the development, implementation and evaluation of a plan for the provision of basic municipal services and capital assets. Such a plan aims to help Municipal Councillors and other decision makers make informed choices about the provision of basic services and capital assets and to promote stakeholder participation in the process.

The financial plan should set out the Municipality's estimated expenditure over the medium-term, based on its goals and objectives, as well as the resources necessary to achieve this. In addition, the financial plan must set out where funding for the planned expenditure will come from.

The compilation of a financial plan is a core component of an Integrated Development Plan (IDP). The envisaged timeframe allocations for a long term financial plan are:-

- Immediate (12 months).
- Medium term (5 years).
- Long term (15 years onwards).

2. PURPOSE OF THIS DOCUMENT

This policy sets outs the principles for determining the following:-

The Policy on Long Term Financial Planning is aimed at ensuring that the Municipality has sufficient and cost-effective funding in order to achieve its long term objectives through the implementation of the medium term operating and capital budgets. The purpose of the Policy on Long Term Financial Planning is therefore to:-

(a) Ensure that all long term financial planning is based on a structured and consistent methodology in order to ensure the long term financial sustainability of the Municipality.
(b) Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality;
(c) Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
(d) Identify new revenue sources as funding for future years.

3. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), has the meaning so assigned, and:

"Accounting Officer (AO)" – means the Municipal Manager and vice versa;

"Act (MFMA)" – means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

''basic municipal service'' means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget Steering Committee", a committee established to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA;

''budget-related policy'' means a policy of a municipality affecting or affected by the annual budget of the municipality, including –

(a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
(b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
(c) the credit control policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"Chief Financial Officer (CFO)" – means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the municipality;

"Council" or "Municipality" – means the Municipal Council of Example Municipality as referred to in Section 18 of the Municipal Structures Act;

"Creditor" – in relation to a municipality, means any person or service provider to whom money owes by the Municipality;

"Debt" – means –

(a) monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or
(b) a contingent liability such as that created by guaranteeing a monetary liability or another.

"Financing Agreement" means any long-term agreement, lease, instalment purchase contract or hire purchase agreement under which the Municipality undertakes to pay the capital cost of property, plant or equipment over a period of time;

"Financial year" – means a year ending 30 June;

"Financial Statement" – means statements consisting of at least –

(a) a balance sheet (statement of financial position);
(b) an income statement (statement of financial performance);
(c) a cash-flow statement;
(d) any other statements that may be prescribed; and
(e) any notes to these statements.

“IDP” means the Integrated Development Plan;

“LTFP” means Long Term Financial Plan;

‘‘long term debt’’ means debt repayable over a period exceeding one year;

“MBRR” means the Municipal Budget and Reporting Regulations;

“MFMA” means the Municipal Finance Management Act No 56 of 2003;

“MTREF” means Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years;

“Municipal debt instrument” – means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including virtual or electronic evidence of indebtedness intended to be used in raising debt;

‘‘municipal tariff’’ means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

‘‘National Treasury’’ means the National Treasury established by Section 216(1) of the Constitution and section 5 of the Public Finance Management Act;

“Short Term” refers to a period up to 3 (three) years;

“Medium Term” refers to a period between 3 (three) and 5 (five) years;

“Long Term” refers to any period longer than 5 (five) years.

“Security” – means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor; and

“Short Term Debt” – means a debt which is repayable over a period not exceeding 12 months.

4. OBJECTIVES

The annual updated LTFP should identify the following:

(a) Assumptions and parameters to be used to compile the Operating and Capital budgets over the next MTREF;
(b) Future operating revenue and expenditure projections based on assumptions and parameters;
(c) Future affordability of projected Capital Plans;
(d) The level of infrastructure development required to achieve the Municipal priorities, within the funding restrictions; and
(e) External funding requirements in respect of long term debt.

5. APPROVAL AND EFFECTIVE DATE

The policy will be effective as from 1 July 2015.

6. POLICY AMENDMENT

The Accounting Officer must:

(a) at least annually review the implementation of this Policy; and
(b) When the AO considers it necessary, submit proposals for the amendment of this Policy to the Council.

The review of this policy and any amendment should be made with due consideration and in Conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations, 2008.

7. RELATIONSHIP WITH OTHER POLICIES

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Delegation of Powers;
- Accounting Policies;
- Credit Control and Debt Collection Policy;
- Tariff and Indigent Policy;
- Property Rates Policy;
- Budget Implementation and Monitoring Policy;

8. REFERENCES

The following references were observed in compiling this document:

- Municipal Finance Management Act, 2003
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- MFMA Circular 18 & 44
- MFMA Budget Circular 51
- Municipal Budget and Reporting Regulations, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice

9. PRINCIPLES

The policy is based on the following principles:-

(a) Viability and sustainability of the municipality;

(b) Optimisation of the municipal revenue basket, taking into consideration the following:

- Grant funding is optimally utilised and managed; and
- Effective credit control and debt collection, ensuring optimal revenue collection in the context of the socio-economic environment.

(c) Continuous improvement and expansion in service delivery framework, and

(d) Effective financial strategies.

During the process of compilation of the LTFP the Municipality should take cognisance of the following additional factors regarding the process:-

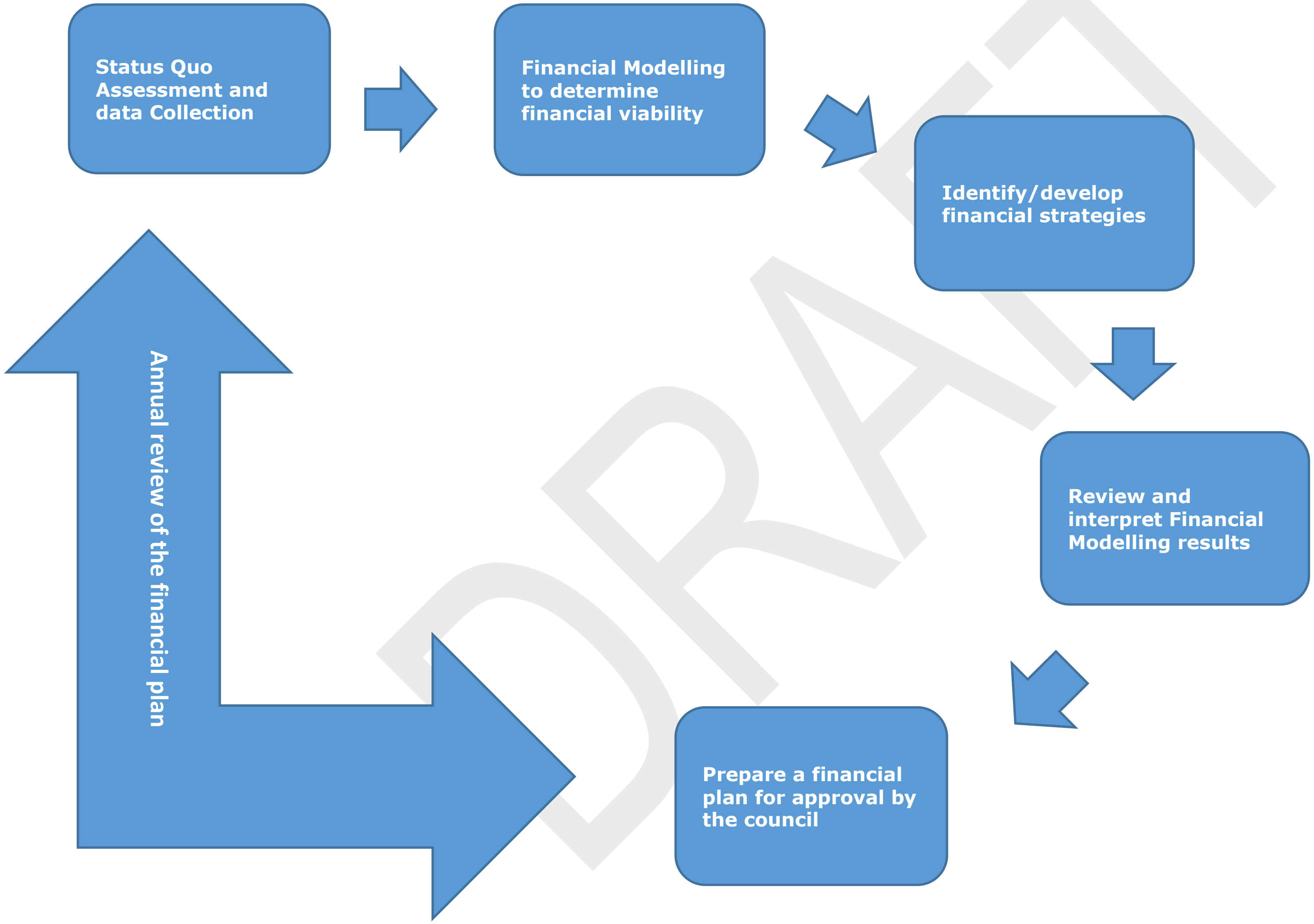
(a) A collaborative and visionary process. The LTFP does not just forecast the status quo into the future but considers different possible scenarios.

(b) A combination of technical analysis and strategizing. Long-term forecasts and analysis are used to identify long-term imbalances and financial strategies are developed to counteract these imbalances or inequities.

(c) An anchor of financial sustainability and policy development. The plan develops big-picture and long-term thinking among elected and appointed Councillors and Officials and also aims to ensure alignment and credibility of the IDP.

10. DEVELOPMENT OF A FINANCIAL PLAN

10.1 Process map



10.2 Status Quo assessment and data collection

The objective of the status quo report is to assess the current financial position and to identify the key challenges faced by the Municipality. The status quo report will aim to identify issues which impact on the overall financial stability of the Municipality and will include a historical analysis and assessment of financial results (based on financial statements).

Perform a Status Quo assessment under the following criteria:-

(a) The Municipality's current financial status;
(b) Audit Outcome for prior financial years;
(c) Current revenue sources, internal and external proportion of revenue;
(d) Main cost drivers impacting on the sustainability of the Municipality;
(e) Determine the main expenditure categories and the scale of each;
(f) Identify internal and external factors, which influence expenditure levels;
(g) Loan and liability obligations;
(h) Status of municipal infrastructure;
(i) Repairs and maintenance and refurbishments as per the Infrastructure Asset Management Plans;
(j) Distribution Losses;
(k) Reviewing the Municipality's funding requirements as per:

- financial plan; and
- IDP.

(l) Ability to finance capital expenditure;
(m) Trends and the implications including the financial problems; opportunities and constraints/risks facing the Municipality;
(n) Service backlogs and population projections in order to determine service needs;
(o) Powers and Functions of the Municipality; and
(p) Summarise the gaps and challenges to be addressed in the financial and funding plan.

In reviewing the current revenue sources in terms of:

(a) Existing service charges and fees.
(b) Options for increasing user charges and fees based on:

- the impact of inflation;
- other cost increases;
- the adequacy of the coverage of costs and current competitiveness of rates;
- number of registered indigents; and
- impact on households, particularly poorer households.

(c) The nature and extent, purpose and predictability of National and Provincial Grants and Agency Payments.
(d) Future opportunities and threats in terms of revenue:
(e) Other revenue opportunities, such as leases and the sale of non-core assets.
(f) Revenue constraints, such as maximum service charges and poor payment levels.
(g) Potential threats to Municipal revenue, including changes in Grant allocations.
(h) Potential expansion of the current revenue base.
(i) Factors, which influence revenue collections.

Other non-financial issues to consider during status quo analysis include:

(a) Proposed organisational structure and assessing its cost implications;
(b) Proposed community projects and programmes by Departments, such as Housing and Health, and assessing their cost implications; and
(c) Current state of Information Communication and Technology

10.3 Financial Modelling

Upon completion of the status quo assessment, resulting in an understanding of the Municipality's financial position, the next phase is to determine the Municipality's financing need over the medium term:-

(a) Develop a financial forecast model to identify immediate opportunities and risks; and
(b) To identify future opportunities and risks.

This entails determining what expenditure the Municipality plans to undertake over the medium-term and what its financing requirements are likely to be and how these can be funded either internally or externally.

As the Municipality evolves and expands its service delivery framework, so do those of the National Government. Long term community development and economic development projects will therefore also be included under this phase.

10.4 Financial Strategies

A key feature of the LTFP is to give effect to the Municipality's financial strategies. These strategies should include:

(a) Increasing funding for asset maintenance and renewal;
(b) Continuous improvement to the financial position;
(c) Ensuring affordable debt levels to fund the capital budget;
(d) Maintaining fair, equitable and affordable rates and tariff increase;
(e) Maintaining or improving basic municipal services;
(f) Achieving and maintaining a breakeven/surplus Operating budget; and
(g) Ensuring full cost recovery for the provision of internal services.

10.5 Analyse results

For the short-term needs of the Municipality based on the Financial Modelling, perform scenario planning to identify the optimum balance between revenue collection and municipal spending, taking into account the following:-

(a) Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality;
(b) Evaluate cost saving mechanisms to minimise the cost of effective service delivery; and
(c) Current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery.

10.6 Prepare financial plan for approval

Once the Municipality has finalised the prioritisation of initiatives and projects; a comprehensive long term financial plan will have to be developed to indicate the envisaged impact it will have on the financial status of the Municipality. An overall financial forecast will then have to be done in order to illustrate the projected result of the implementations throughout the five year period.

Although a long term financial plan provides a forecast of potential outcomes, it has to be emphasised that the success of the financial plan remains in continuous revision. As is the case with any forecast model, the financial plan should be seen as a moving target and should be subject to honest and realistic assessments of successes and failures on a regular basis.

This phase involves finalising a medium-term income and expenditure plan based on the various alternative service delivery options.

A key component in determining future options, potential problems and opportunities is the forecast of revenues and expenditures. The revenue and expenditure plan essentially involves combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast.

Finalisation of the Financial Plan includes collating all short, medium and long term financial data and develop a long term financial plan that:-

(a) Identifies future revenue projections based on current and projected revenue streams, as well as those projects required to achieve these projections;
(b) Identifies future expenditure frameworks and cost of service delivery based on current and projected expenditure patterns;
(c) Identifies the level of infrastructure development required to achieve the municipal priorities, within the funding restrictions; and
(d) Identifies external funding requirements required for capital investment

10.7 Annual Review

The success of the LTFP lies in continuous revision:

The financial plan must be reviewed on an annual basis as part of the annual review of the IDP and updated with at least the following information:-

- any direct change in financial status or internal factors, other than previously predicted, which may influence the financial status and viability of the Municipality;
- any changes in the economic and socio economic environment, other than previously predicted, which may influence the financial status of the Municipality;
- any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;
- any changes in the national or municipal priorities as previously identified; and
- any factors which may have an impact on the ability to implement previously identified project.

11. IMPLEMENTATION AND REVIEW OF THE POLICY

This policy shall be implemented once approved by Council. All future Long Term Financial Planning must be considered in accordance with this policy.

In terms of section 17(1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.